CSMcKee
INVESTMENT MANAGERS

Beaver County Employees' Retirement Fund - Fixed

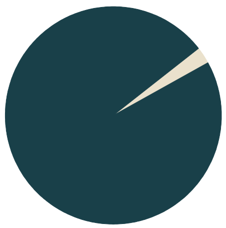
Account Statement - at 6/30/2016

90502

Portfolio Summary

	QTD 3/31/16 - 6/30/16	YTD 12/31/15 - 6/30/16
Beginning market value	$32,841,471	$32,002,029
Net additions and disbursements	1,816	2,853
Investment income	222,869	412,729
Portfolio appreciation / depreciation	164,928	813,473
Ending market value	***$33,231,085***	***$33,231,085***

Allocation



Actual

	Actual	Target	Diff
Fixed Income	***97.5%***	*100.0%*	*(-2.5%)*
Cash	***2.5%***	*0.0%*	*+2.5%*

Performance

*(12/31/1986)**

	QTD	YTD	1 yr	3 yr	5 yr	15 yr
Fixed Income	**1.19%**	**3.85%**	**4.66%**	**3.45%**	**3.26%**	**5.50%**
Blend Index	*1.44%*	*3.78%*	*4.36%*	*3.24%*	*3.03%*	*4.84%*

Benchmark History

Fixed Income Blend Index

08/01/2011	BCIAGG 100%
04/01/2000	BCAGG 100%

Periods greater than 1 year are annualized
** Performance Start Date*

CSMcKee INVESTMENT MANAGERS

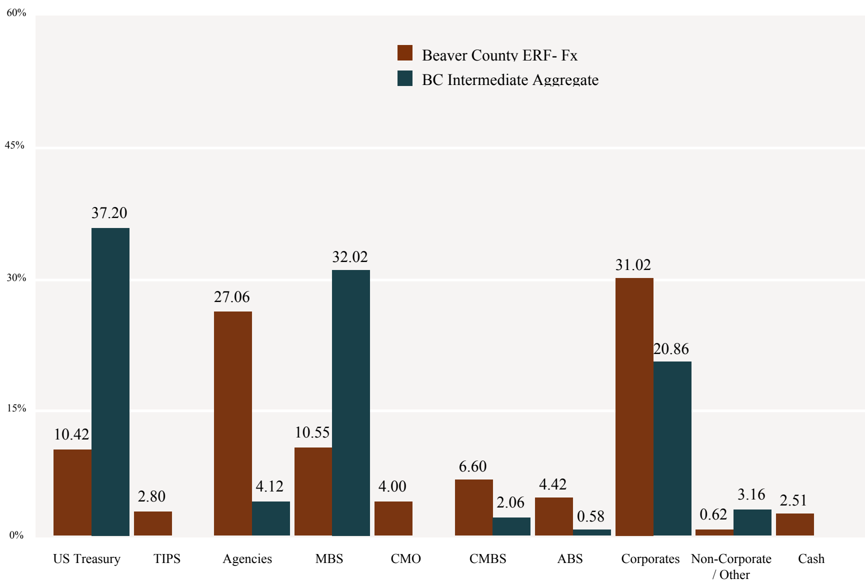
Beaver County Employees' Retirement Fund - Fixed

Fixed Income Portfolio Characteristics - at 6/30/2016

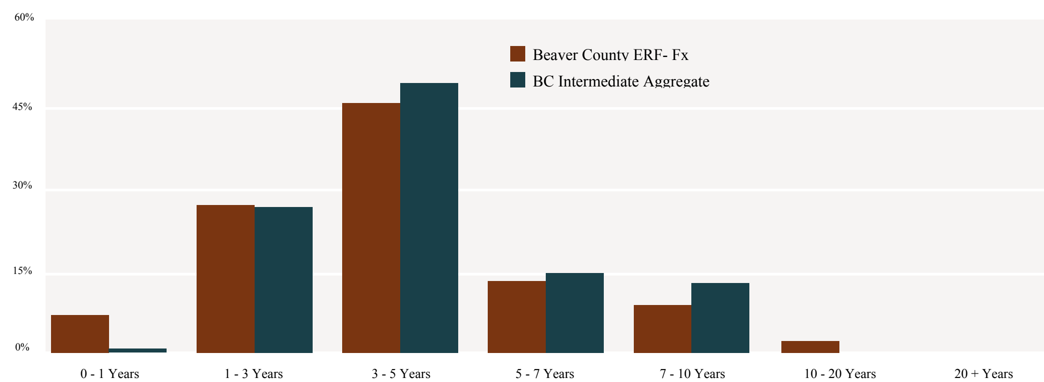
Benchmark Comparisons	*Beaver County ERF- Fx*	*BC Intermediate Aggregate*	*Variance*
Effective Duration	**3.60 yrs.**	3.56 yrs.	*0.04 yrs.*
Average Convexity	**-0.20**	-0.20	*-0.01 yrs.*
Average Maturity	**4.09 yrs.**	4.34 yrs.	*-0.25*
Yield to Maturity	**1.87 %**	1.53 %	*0.34 %*
Average Coupon	**2.69 %**	2.87 %	*-0.18 %*
Average Quality	**Aa1**	Aa1	*N/A*

Top 10 Largest Holdings *(Active Exposures)*	*Coupon*	*Maturity*	*Sector*	*% of Portfolio*
FEDERAL HOME LN MTG	1.125	06/15/2021	US Agencies	3.48
FEDERAL HOME LOAN BA	1.000	05/26/2021	US Agencies	2.93
UNITED STATES TREAS	1.750	04/30/2022	US Treasuries	2.72
FEDERAL NTL MTG ASSN	0.750	01/29/2019	US Agencies	2.71
UNITED STATES TREAS	1.500	12/31/2018	US Treasuries	2.03
AMERICAN EXPRESS CEN	2.350	10/07/2020	US Agencies	1.93
UNITED STATES TREAS	1.625	12/31/2019	US Treasuries	1.77
GOLDMAN SACHS BK USA	2.250	09/30/2020	US Agencies	1.72
UNITED STATES TREAS	1.375	08/31/2020	US Treasuries	1.68
FEDERAL FARM CR BKS	2.820	01/27/2025	US Agencies	1.44

Sector Allocation



Term Structure



Intermediate Aggregate Fixed Income, *Gross of Fees*

Performance Attribution – at June 30, 2016

	2nd Qtr. 2016	*YTD 2016*	*2015*	*2014*	*2013*	*2012*	*2011*	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*
CS McKee Intermediate Aggregate	**1.24**	**3.88**	**1.89**	**3.87**	**-0.60**	**3.87**	**6.59**	**5.89**	**7.83**	**7.15**	**7.72**	**5.55**	**3.24**	**4.47**	**4.25**	**9.33**	**8.81**	**10.77**	**1.36**
Barclays Intermediate Aggregate Index	*1.44*	*3.78*	*1.21*	*4.12*	*-1.02*	*3.56*	*5.97*	*6.15*	*6.46*	*4.86*	*7.02*	*4.58*	*2.01*	*3.74*	*3.81*	*9.49*	*8.68*	*10.62*	*0.99*
Value-Added Return	**-0.200**	**0.100**	**0.680**	**-0.25**	**0.42**	**0.31**	**0.62**	**-0.26**	**1.37**	**2.29**	**0.70**	**0.97**	**1.23**	**0.73**	**0.44**	**-0.16**	**0.13**	**0.15**	**0.37**
Relative Performance Breakdown																			
Duration Decision	**0.055**	**0.120**	**-0.090**	**-0.490**	**0.165**	**-0.350**	**-0.545**	**-0.080**	**-0.220**	**0.030**	**-0.050**	**0.250**	**0.160**	**-0.070**	**0.020**	**-0.440**			
Yield Curve Decision	**-0.025**	**-0.020**	**-0.040**	**0.100**	**0.055**	**0.150**	**0.225**	**-0.170**	**0.010**	**0.100**	**-0.060**	**0.000**	**0.160**	**0.130**	**-0.030**	**-0.200**			
Sector Allocation Decision	**0.070**	**0.195**	**0.085**	**0.070**	**0.130**	**1.000**	**0.120**	**0.200**	**1.950**	**0.420**	**0.770**	**-0.105**	**0.160**	**-0.410**	**-0.200**	**0.090**			
US Agency Debt	*-0.010*	*0.010*	*0.040*	*0.050*	*0.010*	*0.095*	*0.065*	*0.150*	*0.220*	*-0.275*	*-0.210*	*0.375*	*0.120*	*0.250*	*0.010*	*0.050*			
US Agency MBS/CMO	*0.000*	*0.045*	*0.005*	*-0.075*	*-0.085*	*-0.100*	*0.135*	*-0.540*	*-1.160*	*0.920*	*0.510*	*-0.350*	*0.050*	*-0.610*	*-0.090*	*0.020*			
Corporate Bonds	*0.070*	*0.110*	*-0.005*	*0.040*	*0.170*	*0.490*	*-0.140*	*0.120*	*1.420*	*0.090*	*0.190*	*-0.080*	*0.000*	*-0.050*	*-0.120*	*0.020*			
Other Government Bonds	*-0.010*	*-0.015*	*0.040*	*-0.035*	*-0.015*	*-0.220*	*0.070*												
ABS	*0.015*	*0.020*	*0.010*	*0.020*	*0.005*	*0.025*	*0.005*	*0.050*	*0.070*	*0.100*	*0.060*	*-0.010*	*0.000*	*0.000*	*0.000*	*0.000*			
CMBS	*0.005*	*0.025*	*-0.005*	*0.070*	*0.045*	*0.710*	*-0.015*	*0.420*	*1.400*	*-0.415*	*0.220*	*-0.040*	*-0.010*	*0.000*	*0.000*	*0.000*			
Security Selection Decision	**-0.300**	**-0.195**	**0.725**	**0.070**	**0.070**	**-0.490**	**0.820**	**-0.210**	**-0.370**	**1.740**	**0.040**	**0.825**	**0.750**	**1.080**	**0.650**	**0.390**			
US Treasury (US TIPS)	*-0.025*	*0.030*	*0.010*	*-0.045*	*-0.030*	*0.090*	*0.305*	*-0.140*	*1.500*	*-0.500*	*0.050*	*0.020*	*0.060*	*0.020*	*0.100*	*0.080*			
US Agency Debt	*-0.085*	*-0.095*	*0.350*	*0.095*	*0.235*	*0.330*	*0.435*	*0.430*	*-0.180*	*0.460*	*-0.320*	*0.730*	*0.680*	*0.970*	*0.420*	*0.400*			
US Agency MBS/CMO	*-0.045*	*-0.085*	*-0.005*	*-0.110*	*0.145*	*-0.005*	*-0.160*	*0.040*	*0.000*	*-0.280*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*			
Corporate Bonds	*-0.135*	*-0.020*	*0.290*	*0.115*	*-0.260*	*-0.430*	*0.405*	*0.270*	*-0.350*	*1.065*	*0.340*	*0.000*	*0.035*	*0.190*	*0.350*	*0.340*			
Other Government Bonds	*0.000*	*-0.005*	*0.025*	*0.025*	*-0.010*	*0.000*	*0.000*												
ABS	*-0.005*	*-0.010*	*0.005*	*-0.005*	*0.000*	*-0.045*	*-0.025*	*0.000*	*-0.190*	*-0.170*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*			
CMBS	*-0.005*	*-0.010*	*0.050*	*-0.005*	*-0.010*	*-0.430*	*-0.140*	*-0.810*	*-1.150*	*1.165*	*-0.030*	*0.075*	*-0.025*	*-0.100*	*-0.220*	*-0.430*			

The above information is supplemental and complements the composite disclosure presentation at the end of this document, which includes net-of-fee returns for all periods presented. For additional information, contact C. S. McKee at 412-566-1234.

Intermediate Aggregate Fixed Income, Second Quarter, 2016

An otherwise quiet and trendless quarter in the bond market was defibrillated by the global political and economic event best known by its portmanteau "Brexit". The landmark decision that has significant and long lasting implications for the U.K., Europe, and to a lesser degree the U.S., caught financial markets by surprise. The resulting spike in financial market volatility saw a historic move in the value of the British pound, 4% to 8% selloffs in global stock markets, and ultimately led to a new low in yield for the U.S. 10-year and 30-year Treasuries. Equity markets quickly recovered as the reality of a long period of negotiation between the U.K. and the EU, uncertainty over the eventual impact, and global central bank pledges of support, came into play.

The vote to leave the European Union caught us somewhat off-guard. The 10-year Treasury yield, which traded as high as 1.75% the day of the vote, fell as much as 35 basis points as the election results were announced. While our portfolio's benchmark-neutral duration, higher quality bias, and underweight to long-maturity credit worked in our favor, our holdings in callable agency debentures and TIPS did not.

The credit sector was remarkably stable through the Brexit event, with investment grade yield spreads only 8 basis points wider than pre-referendum levels. The relative value of dollar-denominated securities continues to prompt significant foreign buying of our market. All told, our overweight to credit cost the portfolio 2 basis points in performance in June, but added 7 basis points for the quarter. Security selection cost the portfolio 1 basis point in June, 13 for the quarter.

The continued rally in the Treasury market, joined by the spike in volatility in late June, clipped agency security selection by 18 basis points in June and 9 for the second quarter. While callable securities have become more attractive with the strength in Treasuries, we will be cautious in adding to these holdings as global events unfold.

Intermediate maturity TIPs cost the portfolio 2 basis points for the month of June and the quarter, with positive inflation data nearly offsetting the drag from tighter breakeven spreads. The continued rise in energy prices boosted consumer inflation more than 1% during the quarter.

While the outcome of the Brexit vote and resulting market volatility was not our base case view, we believe we are near the low end in rates for the next several months. While a "blow-off" move below 1.35% on the 10-year Treasury should be allowed for, we don't see the revised pace of U.S. and global growth and inflation justifying a further decrease in yields. In our view, the drag on the GDP and inflation from the British referendum is likely to be somewhere in the neighborhood of 1/4% on both, and the extended timeframe of the U.K.'s transition to non-EU status, probably results in a single Fed Funds rate increase in 2016.

Portfolio Positions

Duration: *With the U.S. economy entering the second quarter on a weak note, we elected to continue our neutral to slightly long duration strategy. Though the domestic fundamental picture improved over the past three months, global events kept a lid on rates and our duration at market-neutral levels.*

U.S. Treasuries: *The allocation to this sector was largely unchanged during the quarter, though several tactical trades occurred in TIPS, where holdings were ultimately reduced versus the previous quarter.*

Agency Debt: *Callable agencies underperformed Treasuries during the quarter, thanks to the trend towards lower market interest rates and further exacerbated by the spike in volatility following the Brexit vote. We find callable securities more attractive at current levels, though we will be cautious with any additions to the sector.*

Mortgage-backed Securities: *This sector registered better than expected performance during the second quarter against a backdrop of falling interest rates. We continue our underweight here versus callable agency debentures.*

Credit: *This sector (both investment grade and high yield) outperformed Treasuries in the second quarter, continuing the rebound that began in February. Consistent with gains in oil prices, performance was especially strong in energy names, where we maintained an overweight allocation.*

***The third estimate of first quarter GDP** showed that the US economy expanded at 1.1% - significantly better than the advanced reading of 0.5% published in late April. Recent reports from the Atlanta Fed's GDPNow and the NY Fed's Nowcast show second quarter growth between 2.1% and 2.4%. Personal Consumption Expenditures were the largest contributor to 1Q growth contributing 1.02% to the percent change in overall growth. We expect expenditures to grow as consumers benefit from improving labor markets, relatively low energy prices, and continued low interest rates.*

***Weaker non-farm payroll reports** for the three months show a slow down in non-farm payroll growth from a warm first quarter. Despite June's strong reading, May caused concern among FOMC members that labor market strength was waning. Planned summer rate hikes were quickly shelved following these reports and the surprise vote for the UK to exit the EU. June's rebound of +287K jobs allayed fears of employment deterioration, but wage growth of only 2.6% will keep the pressure off of the Fed from hiking until at least later this year.*

***Global interest rates** continued to decline towards historic lows with $12 trillion of sovereign yielding below 0%. German 10-year Bunds fell into negative territory to an all-time low of -0.186%, concomitantly dragging US yields lower towards their all-time lows near 1.38%. The relative attractiveness of US yields versus other safe havens, such as Japan, Germany, and Switzerland will keep foreign demand high for treasuries.*

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Consumer Strength, Not Brexit, Will Drive US Economy

The UK's vote to exit the European Union surprised many, as the betting odds favored a 'Remain' win in the days leading up to the referendum. Markets reacted negatively to the result sending global equity markets and bond yields tumbling. In the subsequent hours following the referendum, central banks, including the Bank of England, Federal Reserve, and the ECB, pledged to step up support, if needed, to soothe the market's angst regarding tighter financial conditions. The current consensus opinion forecasts that the UK economy will now experience a mild recession over the next 24 months, while continental Europe will have slightly lower growth projections. Initial market reactions to the negative effects of Brexit foreshadowed, perhaps, another Lehman Brothers type event, with US 10-year treasury yields falling to their all-time low and German 10-year Bunds turning deeper into negative yielding territory. Uncertainty levels, as measured by the Baker, Bloom, and Davis Economic Policy Uncertainty Index, spiked to levels near the 2011 European crisis and the 2008 collapse of Lehman Brothers. From our perspective, the impact of Brexit is more akin to a drawn-out divorce battle that weighs on the financial health of both sides, whereas the consequences of the Lehman Brothers bank-run posed a large and immediate fallout to the global economy. The outcome of the UK exit negotiations over the next year has the potential to spur secession talks in other countries such as Italy and Spain. If the damage to the UK economy from exiting the EU proves less harmful than anticipated, the impetus for In or Out referendums may grow in countries questioning the authority of Brussels. Further referendums regarding membership across the EU will add to market anxiety regarding the long-term future of the Union, which could lead to slower than expected growth and other unseen detrimental effects. The exit of the relatively strong UK weakens the European Union, the exit of Portugal, Italy, Greece, or Spain would strengthen the EU given their deficits.

While there certainly will be ill effects on the economies of the UK and the closely linked European countries, the severity of the negative effects will be dependent on future negotiations of trade agreements between the UK and EU and will likely be contained to the region. It is possible that the UK might benefit from an ability to negotiate separate agreements with old nations of the British Commonwealth such as Australia and India – something they were handcuffed from doing through the EU. All of these negotiations, plus the resolution of any separation discussions between Ireland, Scotland and England - will affect the future path for Europe, but are unlikely to upset the expansion in the United States and the improving health of the US consumer. Continued elevated levels of uncertainty have the potential to weigh on confidence over the long run, but as of now, the adverse impacts on the US economy remain low.

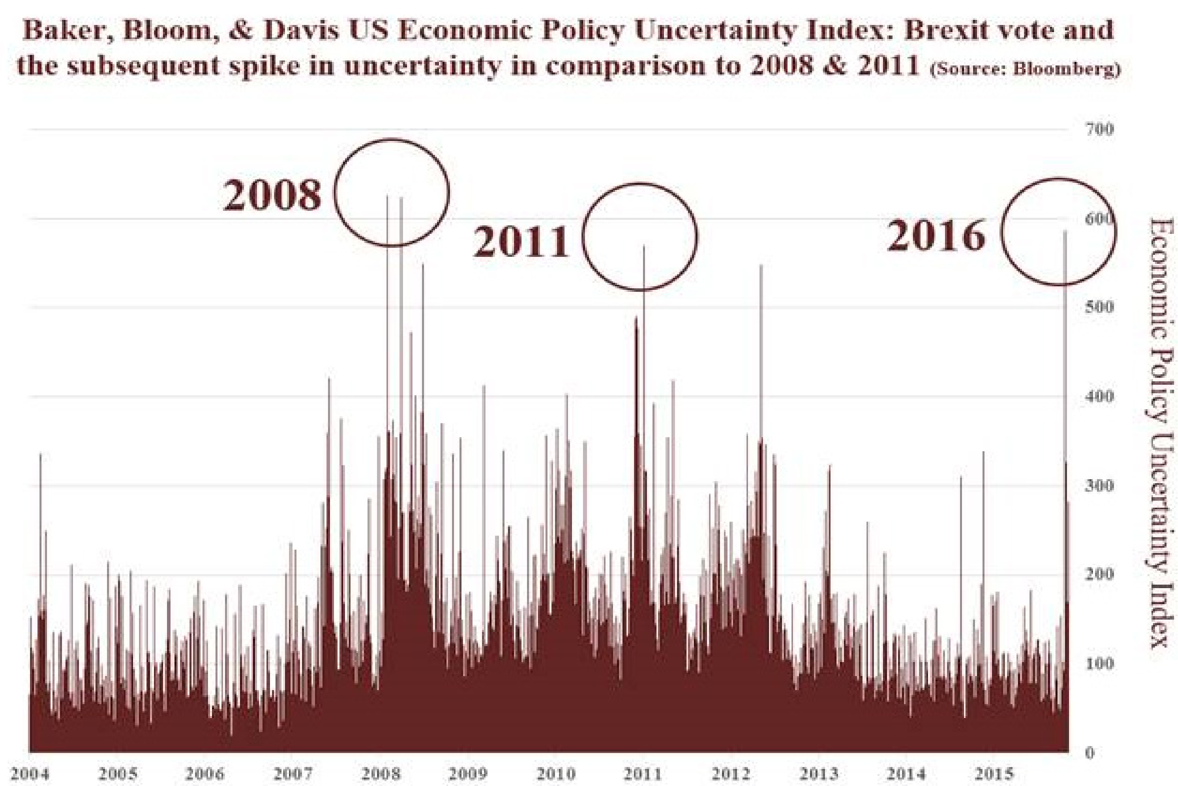
Trade between the US and UK in 2015 totaled over $115 billion, making the UK the seventh largest trading partner for the US. The weakening of the British Pound from $1.50 to $1.30 will likely lead to a readjustment of the nearly balanced trade relationship, as US exports have become more expensive to purchase for UK residents. Continental European economies will also be a beneficiary of a weakening euro at the expense of US exporters. While the strengthening of the US dollar versus our trade partners will likely lead to a worsening of the overall US trade deficit, slowing export growth will have a minimal impact on overall US GDP growth as consumption far outweighs the contributions from trading.

While talk of 'Brexit' and its potential impact has dominated the headlines over the past quarter, the US consumer more importantly, has continued to strengthen as the unemployment rate dipped to 4.9% and wages expanded 2.5% annually. Personal Consumption Expenditures, which account for nearly 70% of US GDP, grew at 3.1% in 2015 and will look to grow further in 2016 as energy prices remain relatively low and average hourly earnings grow around 2.5%. In contrast, total trade with the UK makes up less than 1% of overall US GDP. Rising Consumer Confidence, as measured by the Conference Board, has nearly regained pre-financial crisis levels at a reading of 98.0 in June, as individuals feel more optimistic about their financial situation. Consumers will also continue to benefit from historically low interest rates as the relative attractiveness of US yields versus other sovereign safe havens remains high, effectively limiting the amount rates can rise. Low interest rates should also be supportive of continued expansion in the housing market making mortgages more affordable and allowing current borrowers to refinance.

(continued)

***Core PCE inflation grew** by 1.6% on an annual basis in both April and May. Inflationary pressures remain benign and well below the Fed's 2.0% target, which will allow the FOMC to remain cautious regarding future rate hikes as they assess the labor market and the UK exit negotiations. Services were the main driver of inflation over the first half of 2016, while core goods prices declined. Owner's-equivalent-rent, which makes up nearly 13% of the core index, grew at an annualized rate of 3.3% in May and continues to be the main driver of services inflation.*

Baker, Bloom, & Davis US Economic Policy Uncertainty Index: Brexit vote and the subsequent spike in uncertainty in comparison to 2008 & 2011



Upcoming divorce negotiations between the UK and the EU have the possibility to add further uncertainty to the market and will set the course for the future of the EU, as discussed in our 'Five Minutes with McKee' commentary. Trade relations between the US and the UK will change slightly to reflect the decline in value of the GBP and the independent status of the UK. Congress has already taken the initial steps to keep current trade agreements in place by proposing the United Kingdom Trade Continuity Act, which looks to mitigate any disruptions to the status quo. Tightening financial conditions, heightened uncertainty, and a stronger US dollar will pose the largest threats to financial markets and the US economy. An insulated US consumer, however, will likely withstand these ill effects and continue to be the main driver of the US economy over the long-term.

Portfolio Summary - at 6/30/2016

90502

	6/30/2016 Market Value	6/30/2016 Weight	3/31/2016 Market Value	3/31/2016 Weight	Weight Change
Fixed Income	**$33,231,084.51**	**100.00**	$32,841,471.45	100.00	**0.00**
Cash	824,207.31	2.48	749,676.89	2.28	
Asset Backed Securities	1,467,783.73	4.42	1,147,727.74	3.49	
CMO	1,331,218.20	4.01	1,488,458.83	4.53	
Commercial MBS	2,197,379.10	6.61	2,188,945.20	6.67	
Corporates	10,319,080.62	31.05	9,614,439.90	29.28	
Mortgage Backed Securities	3,497,921.66	10.53	3,745,441.31	11.40	
Other Government	205,815.00	0.62	203,863.21	0.62	
US Agencies	8,992,761.37	27.06	9,243,649.97	28.15	
US Treasuries	4,394,917.53	13.23	4,459,268.41	13.58	
Total Portfolio	***$33,231,084.51***		***$32,841,471.45***		

Position Summary - at 6/30/2016

90502

Description	Issue	Rating	Market Value	Description	Issue	Rating	Market Value
Asset Backed Securities							
AMERICREDIT AUTO REC	1.270 JAN 08 20	AAA	112,226	CAPITAL ONE CC TR	0.000 FEB 15 22	AAA	340,794
FRS I LLC 2013-1	1.800 APR 15 43	A	91,915	NISSAN AUTO RECV	0.831 NOV 15 18	Aaa	241,047
NISSAN AUTO LEASE TR	1.290 MAR 16 20	Aaa	196,568	SLM PRIVATE ST LN TR	0.853 JUN 15 21	AA-	44,754
SANTANDER DRIVE AUTO	1.620 FEB 15 19	Aaa	120,945	VOLKSWAGEN AUTO ENH	1.160 MAR 20 20	AAA	319,535
CMO							
FHLMC REMIC SERIES	2.750 NOV 15 28	AA+	19,239	FHLMC REMIC SERIES	4.500 MAY 15 40	AA+	6,752
FNMA REMIC TRUST	3.000 JAN 25 40	AA+	41,312	FHLMC REMIC SERIES	5.000 NOV 15 23	AA+	30,687
FHLMC REMIC SERIES T	1.810 JUL 25 44	AA+	169,636	FNMA REMIC TRUST	2.750 JUN 25 20	AA+	28,899
GNMA REMIC TRUST	3.500 JAN 20 38	AA+	55,354	GNMA REMIC TRUST	4.500 APR 20 37	AA+	22,584
GNMA REMIC TRUST	4.500 AUG 20 37	AA+	9,203	GNMA REMIC TRUST	4.500 OCT 20 37	AA+	42,595
GNMA REMIC TRUST	3.000 MAR 20 39	AA+	43,473	GNMA REMIC TRUST	3.000 OCT 20 39	AA+	101,175
GNMA REMIC TRUST	3.500 DEC 20 39	AA+	81,263	GNMA REMIC TRUST	3.000 AUG 20 39	AA+	49,883
GNMA REMIC TRUST	4.250 SEP 20 33	AA+	18,707	GNMA REMIC TRUST	4.000 NOV 20 38	AA+	21,647
GNMA REMIC TRUST	2.000 MAY 20 40	AA+	47,254	GNMA REMIC TRUST	3.500 JUL 20 40	AA+	27,387
GNMA REMIC TRUST	2.500 DEC 20 42	AA+	61,827	FNMA REMIC TRUST	2.500 APR 25 40	AA+	49,442
FNMA REMIC TRUST	3.000 JUN 25 29	AA+	159,635	FNMA REMIC TRUST	2.000 JUL 25 41	AA+	28,121
FHLMC REMIC SERIES	3.000 NOV 15 32	AA+	157,429	FHLMC REMIC SERIES	3.500 OCT 15 28	AA+	57,711
Commercial MBS							
COMM MTG TR	2.976 JUL 10 48	Aaa	177,418	COMM MTG TR 2015-PC1	3.902 JUL 12 50	Aaa	162,524
COMM MTG TR	4.258 AUG 12 50	Aaa	226,369	FHLMC REMIC SERIES	2.323 OCT 25 18	AA+	97,767
MS CAP I TR	3.594 MAR 17 49	Aaa	104,074	MS CAPITAL I TR	3.809 DEC 17 48	Aaa	73,351
TIMBERSTAR TRUST	5.668 OCT 15 36	AA-	223,114	WF-RBS COML MTG TR	4.869 FEB 18 44	Aaa	311,541
WACHOVIA CMBS 2007-C	5.884 JUN 15 49	AAA	9,573	VNDO MTG TR	2.996 NOV 15 30	AAA	210,879
VNDO MTG TR	3.808 DEC 13 29	AAA	181,646	UBS COML MTG TR	2.180 MAY 12 45	Aaa	71,214
UBS-BARCLY COML MTG	2.687 MAR 12 46	Aaa	124,821	UBS-BARCLY COML MTG	3.244 APR 12 46	Aaa	223,087
Corporates							

CSMcKee INVESTMENT MANAGERS

Beaver County Employees' Retirement Fund - Fixed

Position Summary - at 6/30/2016

90502

Description	Issue	Rating	Market Value	Description	Issue	Rating	Market Value
Corporates							
UNITED AIRLINES PT C	3.100 JAN 07 30	Aa3	124,515	U S BANCORP MTNS BK	3.600 SEP 11 24	A-	119,878
U S BANCORP MTNS BK	2.350 JAN 29 21	A+	212,759	VERIZON COMMUNICATIO	5.150 SEP 15 23	BBB+	89,834
WELLS FARGO CO MTN B	2.150 JAN 30 20	A	166,307	WELLS FARGO & CO NEW	5.625 DEC 11 17	A	79,983
TIME WARNER INC	3.600 JUL 15 25	BBB	149,737	TORONTO DOMINION BAN	2.250 NOV 05 19	AA-	139,074
TOTAL CAPITAL	2.750 JUN 19 21	A+	136,407	TOYOTA MOTOR CRED	2.125 JUL 18 19	AA-	189,738
TOYOTA MOTOR CRED	1.900 APR 08 21	AA-	125,656	MORGAN STANLEY	3.875 APR 29 24	BBB+	139,238
STATE STR CORP	3.300 DEC 16 24	A	61,124	ORACLE CORP	2.500 MAY 15 22	AA-	239,022
ORACLE CORP	2.400 SEP 15 23	AA-	128,460	PNC FUNDING CORP	3.300 MAR 08 22	A-	263,328
PACIFICORP	3.850 JUN 15 21	A+	243,450	PEPSICO INC	7.900 NOV 01 18	A	106,483
PETROLEOS MEXICANOS	6.875 AUG 04 26	BBB+	271,063	PHILIP MORRIS INTL I	5.650 MAY 16 18	A	131,242
ROYAL BANK OF CANADA	1.875 FEB 05 21	Aaa	277,848	SBA TOWER TR 2010	5.101 APR 15 42	A2	143,568
NATIONAL RURAL UTILS	10.375 NOV 01 18	A	121,372	NATIONAL RURAL UTILS	2.300 NOV 15 19	A	109,640
NISSAN MTR ACCEP COR	FLTG MAR 08 19	A-	192,110	LOCKHEED MARTIN CORP	3.550 JAN 15 26	BBB+	74,682
MICROSOFT CORP	4.200 JUN 01 19	AAA	237,967	MICROSOFT CORP	3.125 NOV 03 25	AAA	225,088
GENERAL MTRS FINL CO	3.700 NOV 24 20	BBB-	149,687	GENERAL MTRS FINL CO	3.200 JUL 06 21	BBB-	46,072
GEORGE WASHINGTON UN	1.827 SEP 15 17	A+	253,231	GLAXOSMITHKLINE CAP	5.650 MAY 15 18	A+	148,606
GOLDMAN SACHS GRP IN	7.500 FEB 15 19	BBB+	134,757	HOME DEPOT INC	2.625 JUN 01 22	A	151,158
JPMORGAN CHASE & CO	4.400 JUL 22 20	A-	327,870	JPMORGAN CHASE & CO	3.250 SEP 23 22	A-	214,225
FORD MOTOR CREDIT CO	4.250 SEP 20 22	BBB	218,389	GE CAPITAL INTERNATI	2.342 NOV 15 20	AA+	301,847
CSX TRANS INC 2007-1	6.251 JAN 15 23	A+	66,879	AT&T INC	3.400 MAY 15 25	BBB+	133,853
ABBVIE INC	2.500 MAY 14 20	A-	137,734	ANHEUSER BUSCH INBEV	3.300 FEB 01 23	A-	215,715
APPLE INC	2.400 MAY 03 23	AA+	369,331	BP CAP MKTS P L C	3.062 MAR 17 22	A-	138,725
BNSF RAILWAY CO 2006	5.720 JAN 15 24	AA	57,433	BANK AMER CORP	5.650 MAY 01 18	BBB+	254,160
BANK NEW YORK MTN BK	2.100 JAN 15 19	A	123,886	BANK OF NOVA SCOTIA	1.650 JUN 14 19	A+	153,096
CATERPILLAR INC DEL	7.900 DEC 15 18	A	393,732	CHEVRON CORP NEW	2.355 DEC 05 22	AA-	334,440
CHEVRON CORP NEW	2.100 MAY 16 21	AA-	154,497	CISCO SYS INC	2.200 FEB 28 21	AA-	104,882

Position Summary - at 6/30/2016

90502

Description	Issue	Rating	Market Value	Description	Issue	Rating	Market Value
Corporates							
CITIGROUP INC	1.800 FEB 05 18	BBB+	264,158	COMCAST CORP NEW	6.300 NOV 15 17	A-	149,443
COMCAST CORP NEW	2.750 MAR 01 23	A-	186,230	CONOCOPHILLIPS CO	2.400 DEC 15 22	A-	94,343
DISNEY WALT CO MTNS	3.750 JUN 01 21	A	121,241	DU PONT E I DE NEMOU	6.000 JUL 15 18	A-	104,489
BERKSHIRE HATHAWAY I	2.750 MAR 15 23	AA	108,435	FEDERAL EXPRESS PASS	6.720 JUL 15 23	BBB+	144,704
FEDERAL EXPRESS PASS	7.650 JUL 15 24	BBB+	62,262				
Mortgage Backed Securities							
FHLMC PC GOL C90899	5.500 MAY 01 25	AA+	111,070	FHLMC PC GOL Q08810	3.500 JUN 01 42	AA+	100,220
FNMA PASSTHRU 253480	7.500 OCT 01 30	AA+	482	FNMA PASSTHRU 254693	5.500 APR 01 33	AA+	30,388
FNMA PASSTHRU 323600	8.000 NOV 01 28	AA+	2,246	FNMA PASSTHRU 546549	8.000 JUL 01 30	AA+	2,021
FNMA PASSTHRU 549444	7.000 AUG 01 30	AA+	4,627	FNMA PASSTHRU 549601	7.000 AUG 01 30	AA+	1,176
FNMA PASSTHRU 572224	7.000 MAR 01 31	AA+	2,186	FNMA PASSTHRU AH0897	4.500 DEC 01 40	AA+	110,481
FNMA PASSTHRU AH0257	4.000 DEC 01 40	AA+	20,949	FNMA PASSTHRU AH1030	4.500 DEC 01 40	AA+	193,945
FNMA PASSTHRU AH3586	4.000 JAN 01 41	AA+	58,940	FNMA PASSTHRU AH3394	4.000 JAN 01 41	AA+	88,070
FNMA PASSTHRU AH9719	4.500 APR 01 41	AA+	181,762	FNMA PASSTHRU AI3507	4.500 JUN 01 41	AA+	72,072
FNMA PASSTHRU AI5888	4.000 JUL 01 41	AA+	156,082	FNMA PASSTHRU AJ4410	4.000 OCT 01 41	AA+	36,184
FNMA PASSTHRU AJ5336	3.000 NOV 01 26	AA+	54,536	FNMA PASSTHRU AL0160	4.500 MAY 01 41	AA+	44,391
FNMA PASSTHRU AL1083	4.500 JUL 01 26	AA+	124,149	FNMA PASSTHRU AL5521	4.500 JAN 01 40	AA+	110,382
FNMA PASSTHRU AL6841	4.000 FEB 01 29	AA+	118,326	FNMA PASSTHRU AO8044	3.500 JUL 01 42	AA+	115,660
FNMA PASSTHRU AV0820	4.000 OCT 01 43	AA+	41,679	FNMA PASSTHRU AV0971	3.500 AUG 01 26	AA+	46,832
FHLMC PC GOL G12548	5.500 JAN 01 22	AA+	49,115	FHLMC PC GOL G15191	4.000 NOV 01 28	AA+	145,786
FHLMC PC GOL C91244	4.500 APR 01 29	AA+	67,516	FHLMC PC GOL J11377	4.500 DEC 01 24	AA+	163,562
FHLMC PC GOL J18448	3.000 APR 01 22	AA+	72,295	FHLMC PC GOL C00921	7.500 FEB 01 30	AA+	665
FHLMC PC GOL A96413	4.000 JAN 01 41	AA+	45,262	FHLMC PC GOL A20475	5.000 APR 01 34	AA+	55,268
FHLMC PC GOL C40561	8.500 JUL 01 30	AA+	123	GNMA PASSTHRU MA1175	1.500 JUL 20 43	AA+	76,172
GNMA PASSTHRU 005228	3.500 NOV 20 26	AA+	208,629	GNMA PASSTHRU 472969	6.500 JUN 15 29	AA+	1,848
GNMA PASSTHRU 479519	8.000 AUG 15 30	AA+	197	GNMA PASSTHRU 490215	7.000 JUL 15 29	AA+	1,742

Position Summary - at 6/30/2016

90502

Description	Issue	Rating	Market Value	Description	Issue	Rating	Market Value
Mortgage Backed Securities							
FNMA PASS-THRU ADJ	FLTG JAN 01 33	AA+	390	FNMA PASSTHRU 686004	2.605 JAN 01 33	AA+	1,656
FNMA PASSTHRU 725027	5.000 NOV 01 33	AA+	27,371	FNMA PASSTHRU 754755	2.795 JAN 01 34	AA+	9,247
FNMA PASSTHRU 765675	2.687 FEB 01 34	AA+	6,182	FNMA PASSTHRU 832254	2.635 AUG 01 35	AA+	2,406
FNMA PASSTHRU 888595	5.000 JAN 01 22	AA+	28,967	FNMA PASSTHRU 932389	4.500 JAN 01 40	AA+	166,043
FNMA PASSTHRU AB3865	3.500 NOV 01 41	AA+	38,799	FNMA PASSTHRU MA0047	4.500 APR 01 19	AA+	43,105
FNMA PASSTHRU MA0907	4.000 NOV 01 41	AA+	87,459	FNMA PASSTHRU MA1982	3.500 AUG 01 34	AA+	150,634
FNMA PASSTHRU AD0250	5.500 APR 01 35	AA+	42,891	FNMA PASSTHRU AD3832	4.500 APR 01 25	AA+	34,729
FNMA PASSTHRU AD6960	4.500 JUL 01 40	AA+	35,464	FNMA PASSTHRU AE0387	5.500 JAN 01 21	AA+	41,838
FNMA PASSTHRU AE0731	4.500 MAY 01 22	AA+	23,901	FNMA PASSTHRU AE7582	4.500 NOV 01 40	AA+	39,802
Other Government							
FLORIDA HURRICANE CA	2.107 JUL 01 18	AA	205,815				
US Agencies							
FEDERAL NTL MTG ASSN	5.600 MAY 15 37	AA+	341,004	HSBC BANK USA NA	1.625 DEC 09 20	AA+	160,494
JPM CHAS BK 00628 CD	1.000 FEB 19 20	AA+	245,997	GOLDMAN SACHS BK USA	2.250 SEP 30 20	AA+	572,875
FEDERAL HOME LOAN BA	1.000 MAY 26 21 SU	AA+	971,162	FEDERAL HOME LOAN BA	2.470 JUN 23 26	AA+	195,223
BARCLAYS BK 57203 CD	0.000 MAR 26 18	AA+	179,861	AMERICAN EXPRESS CEN	2.350 OCT 07 20	AA+	642,949
CAPITAL ONE NATL ASS	2.000 OCT 07 19	AA+	252,783	FEDERAL NTL MTG ASSN	6.210 JUN 05 36	AA+	135,713
FEDERAL NTL MTG ASSN	0.750 JAN 29 19 SU	AA+	900,769	FEDERAL FARM CR BKS	2.950 JUL 13 23	AA+	165,363
FEDERAL FARM CR BKS	3.170 JUL 21 25	AA+	224,347	FEDERAL FARM CR BKS	2.950 SEP 30 24	AA+	129,373
FEDERAL FARM CR BKS	2.820 JAN 27 25	AA+	480,967	FEDERAL FARM CR BKS	1.950 MAR 01 22	AA+	393,764
FEDERAL FARM CR BKS	2.320 JUN 23 25	AA+	275,743	FEDERAL FARM CR BKS	2.540 OCT 05 26	AA+	440,616
FEDERAL HOME LN MTG	1.000 APR 29 21 SU	AA+	122,222	FEDERAL HOME LN MTG	1.875 MAY 24 21	AA+	365,904
FEDERAL HOME LN MTG	1.125 JUN 15 21 SU	AA+	1,151,452	FEDERAL HOME LN MTG	1.000 JUN 28 19 SU	AA+	196,141
WELLS FARGO BK N A	1.750 JUN 17 21	AA+	448,040				
US Treasuries							
UNITED STATES TREAS	1.500 DEC 31 18	AA+	672,786	UNITED STATES TREAS	1.625 DEC 31 19	AA+	586,951

Position Summary - at 6/30/2016

90502

Description	*Issue*	*Rating*	*Market Value*	*Description*	*Issue*	*Rating*	*Market Value*
US Treasuries							
UNITED STATES TREAS	0.125 APR 15 20	AA+	391,159	UNITED STATES TREAS	2.000 AUG 15 25	AA+	123,274
UNITED STATES TREAS	1.375 AUG 31 20	AA+	559,706	UNITED STATES TREAS	1.750 DEC 31 20	AA+	468,699
UNITED STATES TREAS	0.625 JAN 15 26	AA+	210,691	UNITED STATES TREAS	1.625 MAY 15 26	AA+	66,985
UNITED STATES TREAS	2.125 AUG 15 21	AA+	83,918	UNITED STATES TREAS	0.125 APR 15 18	AA+	327,903
UNITED STATES TREAS	1.750 APR 30 22	AA+	902,845	***CASH***			***824,207***

CSMcKee INVESTMENT MANAGERS

Beaver County Employees' Retirement Fund - Fixed

Transactions Summary - April 1, 2016 through June 30, 2016

90502

	Comments	% of Product	Proceeds/ Distributions	Gain/Loss
Additions / Disbursements				
Cash Deposit			2,500	
Cash Withdrawal			-684	
Investment Income				
Interest			222,869	
Purchases / Principal Payups				
Fixed Income				
Asset Backed Securities			-569,059	
Corporates			-1,124,573	
US Agencies			-6,485,431	
US Treasuries			-3,344,545	
Sales / Principal Paydowns / Maturities				
Fixed Income				
Asset Backed Securities			252,369	138
CMO			150,154	-5,606
Commercial MBS			14,266	-202
Corporates			496,500	6,339
Mortgage Backed Securities			237,812	-14,132
US Agencies			6,737,986	26,170
US Treasuries			3,473,866	57,166

July 2016

FIVE MINUTES *with* C.S. MCKEE

CSMcKee
INVESTMENT MANAGERS

C. S. McKee, LP One Gateway Center Pittsburgh, PA 15222 412/566-1234 FAX 412/566-1548

Brexit decision aftermath

LARGE STAKES, MANY UNCERTAINTIES

The UK's vote to leave the European Union seems like a hike with a group, at night, in a forest. At a fork in the path, uncertainty reigns as the group chooses a way many of their number think wrong. The decision has consequences.

The Brexit vote was a triumph for those who view it as a blow to the bureaucracy imposing rules from Brussels affecting British sovereignty (immigration) and the British economy. Assuming that the UK follows through on the referendum, much remains uncertain.

ECONOMIC RISKS

We foresee a number of macro-economic risks. These include an inadequately financed UK current account deficit. Foreign capital flow—both portfolio and direct investment—will likely slow. Without adequate financing, the UK will have to draw upon reserves. Investors are already anticipating that, beating a path to the exit. Hence the weakness in the pound.

The Bank of England (BOE) has highlighted the risk to commercial real estate. With strong inflows of overseas capital, valuations are strained in some segments, making the market vulnerable to out-sized declines.

Some businesses face relocation decisions. Vodafone, the world's second largest telecom company, and Diageo, a global spirits maker, have hinted that they are considering a move from London. That would affect both employees and UK tax revenue. If relocation also signals exits from the UK stock market, the value and importance of one of Europe's leading exchanges would be diminished. Given these and other economic risks, the BOE says, "the current outlook for UK financial stability is challenging."

POLITICAL RISKS

If little from the political perspective seems clear about the chosen path, the challenges are certain.

For starters, the UK has perhaps lost the upper hand with Europe. In February, amid much fanfare, outgoing Prime Minister David Cameron secured a modest negotiated deal in which the EU acceded to the UK's demands on workers' benefits and bailout policy. Now, after the Brexit vote, EU leaders seem eager to negotiate the "Leave" quickly, wary that other EU states might seek similar concessions. The UK position vis-à-vis the EU has gone from strength to uncertainty.

What ifs: Scotland . . . and maybe Northern Ireland?

And once more the dissolution of the UK as we know it is a possibility. Scottish leaders, favoring the position in the EU, intend to push for an independence referendum. This is both a political and an economic risk to the UK. Politically, the UK without Scotland would be a weakened power, perhaps completing its century-long demise as a global hegemon. The makeup of the UK Parliament, where the Scottish National Party is the third largest, would face change.

Economically, while Scotland's 8% portion of the UK's GDP may seem modest, consider that in 2009 the Great Recession in the US entailed a loss of only 2.8% of GDP for the year. A divided UK could experience a GDP decline nearly three times that amount in fewer than three years. Furthermore, the rest of the UK enjoys a trade surplus with Scotland of £17 billion per year. A portion of that surplus could be lost to other EU nations. A decline in UK GDP is a significant hazard demanding deft navigation.

Market Signals and Leadership

Businesses and political leaders come and go. Why the extreme reaction in the financial markets? Technology permits quick and decisive responses to unexpected events—and the Brexit vote was unexpected. The initial response, to invoke the hiking analogy again, signaled that many in the group (market participants) believed Brexit was a wrong turn and those who chose this path are unsure where they are going.

A crisis in leadership

Indeed, the UK experienced a crisis in leadership unlike any in recent memory. Two leaders of major parties resigned. Another leader refused to resign, though many of his deputies want him out. And one of the main advocates for leaving the EU, Boris Johnson, removed himself from consideration for Prime Minister. Instead, Theresa May, who had been on the "Remain" side of the Brexit issue, is the new PM. Potential leaders ready to steer the UK out of the EU are few. Given the turmoil, the financial markets' volatile (and confusing) response is unsurprising.

Many Questions

More volatility is likely, and it might well be justified. Numerous economic and political questions remain. How will Britain fare in its trade negotiations with Europe, and can it negotiate trade agreements elsewhere? What form of immigration policy will it adopt, and what are the implications for the expatriate workforce and labor supply in general? How would its energy policy evolve with the potential loss of North Sea oil and gas reserves to a devolved Scotland? The answers to these and other questions carry major implications for the future of the UK economy.

With an independent Scotland (and potentially Northern Ireland), the UK would be a diminished entity. Will the UK exercise the same influence in global affairs in 20 years as it has in the post-war era? What would be the effect on the pound as a global currency? Can Britain continue to be a voice in European affairs? Or might it be limited to an off-stage presence should the continent remain otherwise consolidated and prosper? The answer to these questions will affect Britain's standing and influence in the world.

One thing was clear early on: investors voted with their feet. A post-referendum devaluation of the British pound has been quick. Financial markets are correctly discounting several scenarios. The BOE stands ready to intervene with interest rate cuts should the economy slide towards recession. Should rates in the UK approach 0%, it stands to reason that the US dollar will appreciate relative to the pound, given the attractive interest-rate differential. A collapse in longer-term gilt yields indicates a flight to quality and hints at the potential for a BOE intervention. Finally, the risk remains that foreign nationals could divest UK assets.

Conflicting Market Signals

Compounding uncertainty are confusing signals from the financial markets. To believe the bond markets, the globe is facing a probable economic downturn with an accompanying level of deflation. Yet since the Brexit vote gold has appreciated markedly, traditionally a signal of the onset of inflation. While most commodities were selling off, given the stronger dollar, precious metals did not follow their historical pattern.

Bonds reflect the confusion. If the loss of Britain signals that the EU is headed for a breakup, then the credit-worthiness of the peripheral markets, notably Italy and Spain, must be questioned. But as of this writing, Italian 7-year yields are lower than they were before the Brexit vote. And the UK's credit rating has been downgraded, yet its bonds have increased substantially in value.

Imagine starting down the uncertain path with half the group questioning the route; the trail map shows no details; and a short distance into the trek all the leaders, so sure of their course just moments ago, decide to move to the rear or leave the group. The anxiety felt by many in Britain is understandable.

A monumental shift

We can now recognize that the Brexit vote was not a short detour for Britain. It was a monumental shift. Nearly half a century after Britain joined the European Economic Community (predecessor to the EU), the UK elected to change paths. The vote was close, but not so in Scotland, providing impetus to divide the UK. Markets are witnessing a radical change in direction, and the future of the UK in its current form is not clear. Fifty-two percent of the UK electorate chose the Brexit path. The success or failure of the UK and the EU to manage their respective destinies will determine the merits of that choice.

by Michael J. Donnelly, Vice President and Portfolio Manager, Equity